

TRINTEX RESTRICTED CONFIDENTIAL

MINUTES OF

TRINTEX PARTNERS' COMMITTEE MEETING

WHITE PLAINS, N.Y.

NOVEMBER 18, 1987

A meeting of the Partners' Committee of TRINTEX, a partnership organized under the laws of the State of New York, was held at 8:30 a.m. on November 18, 1987 at the offices of the Company located at 445 Hamilton Ave., White Plains, NY.

Committee Members

Present:

IBM

Mr. J. F. Akers
Mr. R. T. Liebhaber

SEARS

Mr. C. F. Moran
Mr. A. B. Stewart

Absent:

Mr. E. A. Brennan
Mr. T. R. Lautenbach
Mr. W. E. Hedien

Others Present

TRINTEX

Mr. T. C. Papes
Mr. J. H. Beall
Mr. R. S. Glatzer
Mr. H. Heilbrunn
Mr. J. M. Hewitt
Mr. H. C. Perce
Mr. G. M. Perry
Mr. J. M. Pugliese
Mr. R. M. Shapiro
Mr. H. E. Smith
Mr. E. Balaban (Part time)
Ms. S. Biegel (Part time)
Mr. F. Larson (Part time)
Mr. D. G. Norris (Part time)
Mr. D. J. Waks (Part time)

ComputerLand

Mr. K. R. Waters

Hayes Micro-

computer Products Mr. C. G. Betty

Microsoft, Inc.

Mr. T. M. Lopez

Pershing, Donaldson

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Lufkin & Jenrette Mr. R. S. Pechter
Mr. R. Brueckner

Mr. R. T. Liebhaber presided as Chairman of the meeting, and Mr. G. M. Perry, Secretary of the Company, recorded the minutes. The minutes of the August 20, 1987 meeting of the Partners' Committee were unanimously approved as presented.

The Chairman noted that Mr. Stewart is representing Mr. Hedien at this meeting. He then said that since the last meeting of this Committee the Executive Committee has held three meetings (September 10, October 9 and November 13). The Chairman also noted that the dates for the 1988 Partners' Committee meetings (February 3, May 25, July 27, and November 30) have been set on the calendars of each of the members.

I. PRESIDENT'S REPORT

The Chairman then called upon Mr. Papes who, using visual aids copies of which are attached hereto as Exhibit A, presented the President's Report as follows:

A. General Mr. Papes began by saying that the Company is very close to the operational plan described at the August meeting of this Committee, as updated by the October 16 report to senior IBM and Sears management. As of November 16 there were 570 users of the live PRODIGYsm service, representing 117 households. Most of these are Company employees testing either from their offices, or their homes.

Operations reliability has been good, with only modest periods of service interruption. He then reported that a demonstration of the service was given before the Direct Marketing Association in early October, which has resulted in a good deal of favorable coverage in the trade media. An interview with a USA Today reporter has been scheduled for early December. He also discussed the activities of the Company in connection with the FCC interstate access charge proceeding and the triennial review of the Federal District Court's Modified Final Judgement in the AT&T divestiture case.

B. Hartford Pilot The Hartford Pilot started on October 1. The activities of the Hartford users (all currently Partner company employees) are being carefully monitored using research consultants. The very early results of the research work, based upon a small number of users and a short period of time, indicates a need for the following improvements, among others, before the service will be marketable: (a) more transactional content must be added, such as banking, retail shopping, grocery shopping, travel reservations, and on-line brokerage; (b) the news and "expert" features must be more comprehensive; (c) the navigational commands must be improved in terms of consistency and ease-of-use; and (d) performance time must be improved. Efforts are underway in each of these areas.

C. Client Status Mr. Papes said that, since the last meeting of this Committee, special application contracts have been signed with Kroger for grocery shopping in Atlanta (as well as an option on Kroger's part for 23 future launch cities); Grocery Express for grocery shopping in the San Francisco area; the Pershing Division of Donaldson, Lufkin, & Jenrette for on-line brokerage; Sears for the Sears Gateway application; and the Pacific IBM Employees Credit Union for a home banking application in the San Francisco area. In addition, ten product packages were sold during that period, including sales to Spiegel, Panasonic, Air France, and Broderbund Software. The total number of product package clients stands at 72, representing a total of 78 packages. The major open area continues to be home banking. Both First Atlanta Bank and First Interstate Bancorp have declined participation. A preliminary contact has been made with Citizens & Southern Bank in Atlanta, and there is new interest being shown by Bank of New England ("BNE") for the Connecticut

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market. The BNE application would initially be for account look-up only, later migrating to a full home banking product.

D. Launch Schedules Mr. Papes then reviewed the 1988 Launch Operating Plan, showing a controlled build-up of testers through March, with a launch in Atlanta and Connecticut in April, and in San Francisco in May, and with the general California rollout beginning in September. He pointed out that many of the specialty transactional applications will not be available until the summer months. He also noted that the inclusion of the Macintosh and Apple IIGS machines will not occur until the August/September time frame. The number of commercial client packages available on the service will be steadily increased from the present 15 to about 125 by year end 1988. He said that launch strategy must be designed around the condition of the product and the state of the reception system software during the second quarter, and it may be desirable to enter the initial markets on less than a full media basis, using speciality marketing techniques to build membership in a more controlled manner until the latter part of the summer when the product has further matured.

II. 1988 OPERATING PLAN AND STRATEGIC BUSINESS PLAN

The Chairman then called upon Mr. Perce who, using visual aids copies of which are attached hereto as Exhibit B, presented summaries of the 1988 Operating Plan and the Strategic Business Plan. Mr. Perce noted that each member of the Committee had received a full copy of both plans prior to this meeting. He said that the Operating Plan provides for a total 1988 year-end employee count of 964, compared to the estimated 1987 count of 725. Total headcount (including contract programmers) at year-end 1988 is budgeted at 997, compared to the estimated 1987 count of 861. He reviewed the breakdown of these numbers by direct (product development, marketing and operations) and indirect (systems development, research, and general and administrative) expense categories, pointing out that headcount representing indirect expense will decrease by 7% while that representing direct expense will increase by 32%, for a total net increase of 16%.

Mr. Perce said that the Operating Plan shows a net pre-tax loss in 1988 of \$135 million, compared to the estimated 1987 pre-tax loss of \$93 million. He reviewed these numbers by direct and indirect expense categories, pointing out that the direct expense categories will increase by 87% from the estimated 1987 numbers, while indirect expenses increase by only 2%, for a total estimated increase of net pre-tax loss of 46%.

Mr. Perce then said that the Operating Plan provides for 1988 capital expenditures of \$31 million, compared to estimated 1987 expenditures of \$14.2 million. The estimated total Partner company cash requirements for 1988 will be \$148.9 million, compared to the estimated \$96.9 million for 1987. He then reviewed a summary comparison of the 1986 and 1987 Strategic Business Plans, pointing out that there are no significant changes between the two plans. He said that in addition to the base 1987 Strategic Business Plan, a "moderated demand" plan was prepared in which the revenue generating assumptions were reduced by 40%. Even at those moderated levels, the business opportunity appears very attractive.

Following Mr. Perce's presentation, the Chairman stated that the Executive Committee had previously reviewed in detail both the 1988 Operating Plan and the Strategic Business Plan and recommends the approval of both Plans as presented.

Thereafter, upon motion duly made, seconded and unanimously carried the Committee approved the 1988 Operating Plan and the Strategic Business Plan as presented.

III. BUSINESS SERVICES REPORT

The Chairman then called upon Mr. Pugliese who, using visual aids copies of which are attached hereto as Exhibit C, reported that the Business Services group has signed its first contract to develop and operate a management support service application. The client with whom this contract was signed is Artec Distributing, Inc., a wholesale distributor of video software, compact discs and accessories.

Mr. Pugliese briefly reviewed the profile of the video software distribution industry and gave an overview of Artec's business. He said that the initial applications in the Artec service, which is scheduled to begin test operations in July, 1988 and to become operational January 1, 1989, will include order status, order entry, product information, news, advertising (by Artec or its suppliers), a Frequent Buyer Club, and messaging. Future applications would be added upon mutual agreement.

Mr. Pugliese also reviewed with the Committee a joint marketing arrangement that is reflected in a Letter of Understanding with Cambar Business Systems, Inc., which has developed and sells a major order entry software application for large IBM mainframe computers. The relationship with Cambar is one in which TRINTEX would market its front-end applications and operational network capabilities with Cambar's back-end order entry system. Each party would market and be responsible for its own products.

IV. MEMBERSHIP MARKETING REPORT

The Chairman then called upon Mr. Glatzer who, using visual aids copies of which are attached hereto as Exhibit D, reported on membership marketing. He first reviewed the marketing mission and objectives for 1988. He said that the mission is to introduce the PRODIGY service into the marketplace with high impact, and to begin seating the positioning and salability of the service on the way to becoming a major participant in the industry. The high level objectives to be accomplished in pursuing this mission include: (a) showing quick evidence to the various constituencies of the Company of success in attracting a critical mass of members who will establish active usage patterns; and (b) acquiring and retaining 30,000 members with a high degree of usage as the first step toward membership and revenue goals of the Strategic Business Plan. He then reviewed a variety of specific marketing plans, including the creation of modem and home PC configuration standards, the development of branch offices to support the field sales organization and over 400 retail outlets, an outlet support program (including a mobile demonstration unit), and a specialty marketing program centered around PC clubs, associations, educational groups, and Partner company employee groups.

Ms. Biegel then joined the meeting and presented a prototype of a Demonstration Diskette that will be used in connection with membership acquisition efforts, both in direct marketing campaigns and as point-of-sale aids. Following the demonstration, Ms. Biegel retired from the meeting and Messrs. Betty and Norris joined the meeting.

The Chairman then called upon Mr. Norris, who reviewed the Company's sales strategy with respect to modems and the PRODIGY™ Start-up Kit. He said that the basic start-up kit will consist of the PRODIGY™ software, plus documentation and the membership offer. However, since most prospective members will need to buy a modem as well as the start-up kit, a plan is being implemented to offer the start-up

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kit either alone or with a 1200 bps modem. This strategy is being pursued in conjunction with Hayes Microcomputer Products, which has designed and produced a prototype 1200 bps Personal Modem for inclusion in PRODIGY Start-up Kits. He said that the objectives of the modem strategy are to: (a) lower membership acquisition barriers; (b) support the development of a modem with mass market potential; (c) help set a standard for a home modem; (d) reinforce the positioning of the PRODIGY service; and (e) simplify the buying, selling and installing process for the consumer.

Mr. Norris then introduced Mr. Betty, Senior Vice President of Hayes, who displayed and described the Personal Modem prototype to the Committee.

Following this report, Messrs. Balaban, Lopez and Waks joined the meeting.

V. MULTI-MEDIA REPORT AND DEMONSTRATION

The Chairman then called upon Mr. Waks who, using visual aids copies of which are attached hereto as Exhibit E, reported on the work of the technology group in the area of multi-media. He said that the concept of multi-media combines TV-quality pictures, CD-quality sound, animated graphics, and computer synchronization. The development of CD-ROM disks and players, which will enjoy cost reduction leverage from the virtually identical input and output technology of audio CDs, makes possible, for the first time, bulk data storage of the magnitude required by multi-media.

Mr. Waks said that TRINTEX has been working throughout 1987 under an agreement with Microsoft to develop a multi-media demonstration of what a "second generation" PRODIGY service might look like. He introduced Mr. Lopez, Senior Vice President of Microsoft, to the members of the Committee. He said that Microsoft provided the programming tools and pressed the CD-ROM disks, while TRINTEX provided the concept, design and production of the content. With the assistance of Mr. Balaban, Mr. Waks then presented the CD-ROM multi-media demonstration.

Following the demonstration, Mr. Waks stressed that the hardware does not exist to make this technology usable today, but all indications are that the necessary technology will mature in the next few years. Mr. Lopez expressed Microsoft's conviction that CD-ROM technology is critical to the future development of the PC market.

He said that the hardware is available to operate CD-ROM today, and the cost is expected to come down dramatically as quantities increase. Disk pressing costs will also be very low in high quantities.

Mr. Waks then said that the action plan for the technology group is to bring a meaningful test to the marketplace with prototype hardware and a prototype of the PRODIGY service, to study the possible cost and revenue impacts it would have on the business, to continue working with the industry as it evolves, and to develop production skills that will be necessary to bring this technology into play.

Following this report, Messrs Balaban and Waks retired from the meeting, and Mr. Larson joined the meeting.

VII. DISCUSSION WITH CLIENT EXECUTIVES

The Chairman then invited the following guests into the meeting:

Mr. Kenneth R. Waters
President and Chief Executive Officer
ComputerLand

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Mr. Richard S. Pechter
Chief Executive Officer
Pershing Division, Donaldson, Lufkin & Jenrette, Inc.

Mr. Richard Brueckner
Managing Director
Pershing Division, Donaldson, Lufkin & Jenrette, Inc.

The Chairman also invited Messrs. Lopez and Betty to remain for this portion of the meeting.

The Chairman said that the purpose of inviting these guests to the meeting was to provide an open exchange of views between the members of the Committee and senior executives of commercial client companies and of other companies with whom strategic alliances are being formed. A wide ranging discussion followed.

Following this discussion, there being no further business to come before the meeting, it was adjourned at 12:30 p.m. The next meeting of this Committee is set for February 3, 1988.

Respectfully Submitted,

R. T. Liebhaber
Chairman

G. M. Perry
Secretary